

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

JUN 11 1998

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of)
)
Applications of WorldCom, Inc.)
and MCI Communications Corp.) CC Docket No. 97-211
for Transfer of Control of)
MCI Communications Corp.)

To: The Commission

COMMENTS OF SIMPLY INTERNET, INC.
IN RESPONSE TO PROPOSED MCI DIVESTITURE

Pursuant to the procedures specified in the Common Carrier Bureau's Order (DA 98-1059) of June 4, 1998 ("Order"), Simply Internet, Inc. ("Simply Internet") submits the following comments in response to MCI Communications Corporation's ("MCI's") proposed divestiture of portions of its Internet backbone network to Cable & Wireless, Inc. ("C&W").

Introduction

MCI's proposed divestiture of minimal portions of its substantial Internet backbone holdings should not be permitted to distract the Commission from carefully evaluating the significant public interest and competitive questions raised in this proceeding by Simply Internet and other petitioners. As made clear in this proceeding, the merger of MCI and WorldCom's Internet backbone facilities

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would create a dominant player in the newly emerging Internet backbone provider ("IBP") services marketplace severely putting at risk the ability of any real competition to develop. MCI's act to sell off small pieces of its mammoth network and a few of its backbone customers does nothing to alleviate these concerns.

After consummation of the proposed divestiture, MCI would still maintain its overall Internet backbone network facilities, all of its tens of thousands of non-ISP retail and commercial customers, substantial blocks of Internet Protocol (IP) addresses, and specialized technical and support employees. The proposed divestiture not nearly approaches what is necessary to resolve the competitive problem.

I. MCI Will Retain Its Overall Internet Network Facilities

According to MCI, it will divest 22 hubs, 15,000 interconnection ports, and all routers, switches, and other equipment dedicated to the backbone, along with the assignment of 40 peering agreements. Additionally:

MCI will also transfer (1) the right to use transmission capacity that C&W needs to operate the network, including projected growth requirements; (2) the right to use all associated dedicated software and operations support systems; (3) assignment of Internet addresses; (4) collocation rights that permit C&W to maintain equipment in MCI facilities; and (5) 50 engineering, sales, and administrative employees necessary to assist the personnel in C&W's existing Internet organization in operating the backbone business. MCI Comments at 6.

While this may sound substantial at first blush, in actuality, MCI is selling very little of its overall network. The equipment MCI proposes to divest will be easily replaced by use of substantial WorldCom equipment which is currently in place. MCI will sell absolutely zero of its fiber facilities, which is the heart of any Internet backbone, and none of its buildings or other facilities. The 40 peering agreements it is proposing to divest also takes nothing away from MCI's ability to remain an Internet backbone monolith. It will simply use all of WorldCom's peering arrangements if the merger is approved, and remain in the same position. All MCI is really giving up is some easily replaceable equipment and leases to fiber facilities.

II. MCI Will Retain Lucrative Non-ISP Business Customers

MCI's proposed sale of its ISP customers does not alleviate the substantial concerns regarding market concentration over the Internet backbone market of a merged MCI/WorldCom. As Simply Internet explained in its original Petition to Deny in this proceeding:

The ISP backbone connectivity market is a separately defined market from the national IBP connectivity market to non-ISP businesses (i.e., corporations, government, etc.). However, the same IBPs supply both ISPs and businesses. The two markets together make up the entire national market for all Internet backbone connectivity, to which there are no alternatives. While not cited here, the data with respect to market share of the respective IBPs in the business connectivity market, with few exceptions, almost mirrors each IBPs market share in the ISP market. See Attachment C, Jack Rickard, Editor's Notes: The Big,

The Confused, and the Nasty, Boardwatch Magazine, June 1997. Although there are similar potential antitrust implications with respect to the business connectivity market which are triggered by this proposed merger, the ramifications to that market are not discussed herein. See Petition to Deny of Simply Internet at 6, fn. 12.

Many of the same issues applicable to the Internet backbone provider market apply to the non-ISP business market over which MCI would continue to maintain significant control, including tying customers through control over IP addresses, maintaining substantial market concentration leading to limited vendor choices, and potential anti-competitive conduct against competitors. Further, with MCI maintaining control over the fiber backbone, buildings and other facilities, employees and an immense number of IP addresses, this could quickly enable a combined MCI/WorldCom to reassert a substantial amount of control over the Internet backbone market with respect to ISP customers.

III. MCI Will Maintain Control Over Major IP Address Blocks

As part of the proposed divestiture, MCI claims it will sell Internet addresses, or IP addresses. Even presuming it plans to sell the IP addresses associated with the ISP customers and enough addresses for C&W to satisfy growth requirements, MCI will still be left with significant blocks of IP addresses. It is industry-wide knowledge that as early participants in the emerging Internet backbone services industry, MCI and WorldCom's UUNET subsidiary were

able to obtain control over significant IP address blocks. As the exact percentage of all IP addresses they control is not public information, this is information which is essential to a review of the consequences of the proposed divestiture. It should be promptly disclosed by MCI and WorldCom. Simply Internet explained the competitive importance involved with having control over huge IP address blocks in its January 26, 1998 Response filed in this proceeding. Therein, Simply Internet explained that MCI has control over significant blocks of IP addresses, many more than would be necessary to satisfy C&W's needs with respect to the proposed divestiture. If MCI is able to keep its blocks of reserved IP addresses and combine them with WorldCom's holdings, it will have private control over an extremely high concentration of routable IP addresses, which is key to how all Internet traffic is routed.

IV. MCI Will Retain Engineering and Technical Employees

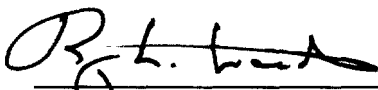
MCI's proposal to transfer "50 engineering, sales, and administrative employees" represents a fraction of its overall force of Internet operations employees. Employees specialized in the Internet area are a substantial asset to any Internet related company and, as a result of a severe shortage of individuals who have this expertise, are currently in great demand in the Internet industry. Retention of MCI's significant Internet related workforce ensures that a merged MCI/WorldCom would be the dominant

player in the Internet backbone services market as the parties to this proceeding have demonstrated.


Conclusion

MCI's proposed divestiture of portions of its substantial Internet backbone holdings does not do enough to address the significant public interest and competitive concerns raised by the proposed MCI/WorldCom merger. The Commission should not be misled by the proposed divestiture and should continue its review of the overall impact of the proposed merger on the Internet backbone marketplace.

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June 11, 1998

CERTIFICATE OF SERVICE

I, Rudolph J. Geist, hereby certify that a copy of the foregoing "Comments of Simply Internet, Inc. in Response to Proposed MCI Divestiture," dated June 11, 1998 were served by first-class, postage prepaid mail to the following:

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